



NHS Shetland

Report to the Audit Committee, the Board and the Auditor
General for Scotland on the 2019/20 audit

Issued on 3 August for the meeting on 10 August 2020

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee ('the Committee') of NHS Shetland for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Audit Committee in November 2019.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by NHS Shetland staff in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and worked with management to a revised timetable proposed by NHS Shetland. While the shift to remote working placed pressure on the timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers' duty to secure best value.



Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The impact of COVID-19 has led to a material uncertainty being identified by the Board's property valuers in relation to the valuation of the Board's estate. As a result, we expect to include an 'Emphasis of Matter' paragraph within our audit report.

Following amendments made as a result of our audit, we are satisfied that the Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

Several adjustments to the auditable parts of the Remuneration and Staff Report have been made as a result of our audit to ensure that they are prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10. The Board met its financial targets for 2019/20.

No misstatements in excess of our reporting threshold of £67,000 have been identified up to the date of this report. We have identified three disclosure deficiencies, which have been corrected by management, as set out on page 42 – 43.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Related party testing;
- Disclosures testing;
- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2020.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long-term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on NHS Shetland at this stage.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial management – NHS Shetland has effective financial planning and management arrangements in place, although improvements are needed in forecasting, the transparency of financial reporting and management accountability for audit actions. NHS Shetland achieved a year-end breakeven position. Significant resources have been deployed to increase capacity to cope with increased health and social care demands as a result of COVID-19. This has put additional pressures on finance staff with weekly reporting in place to the Scottish Government to assess the financial impact of COVID-19. It is important that this is closely monitored.

Financial sustainability – NHS Shetland continues to be faced with an extremely challenging financial position in the medium to longer term. A balanced budget has been set for 2020/21, with £3m of savings required. This includes a number of significant risks. The impact of COVID-19 increases this risk further, although we note that NHS Shetland expect to receive additional funding from the Scottish Government to cover COVID-19 associated costs.

Significant work is still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to impact on original timelines.

Governance and transparency – NHS Shetland has a commendable attitude towards openness and transparency. The Board continues to have strong leadership and governance structures in place, with effective measures put in place during 2019/20 to successfully manage transition arrangements for the Chief Executive post. Appropriate processes have been put in place to temporarily change the governance arrangements in response to COVID-19.

NHS Shetland needs to work with the Council and IJB as a matter of priority to review the Integration Scheme, as required by law.

Value for money – There continues to be a clear framework in place to ensure that NHS Shetland's performance is monitored and reported. Performance reporting has been put on hold while the NHS focuses on responding to the COVID-19 pandemic.

Performance has remained consistent in comparison with previous years and a number of areas remain below the national targets. There are particular difficulties in relation to psychological therapies. Management should continue to focus on improving performance across these areas. We do, however, recognise that resources are currently focused on managing the impact of COVID-19. It is important that as NHS Shetland move to the next phase in responding to COVID-19 that it focuses on lessons learned and how some of the changes made can be sustained.

Our detailed findings and conclusions are included on pages 20 to 36 of this report.

Introduction (continued)

The key messages in this report (continued)

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focussing on the impact of COVID-19. We have provided a summary of those most relevant to the Committee as part of our Sector Developments on pages 38 and 39 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 44 to 52 of this report. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

Our aim is to add value to NHS Shetland by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help NHS Shetland promote improved standards of governance, better management and decision-making, and more effective use of resources.

We have also included conclusions on the NHS Shetland's Best Value arrangements, which are discussed on page 36.

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

Pat Kenny
Audit Director

Financial statements audit



Quality indicators

Impact on the execution of our audit

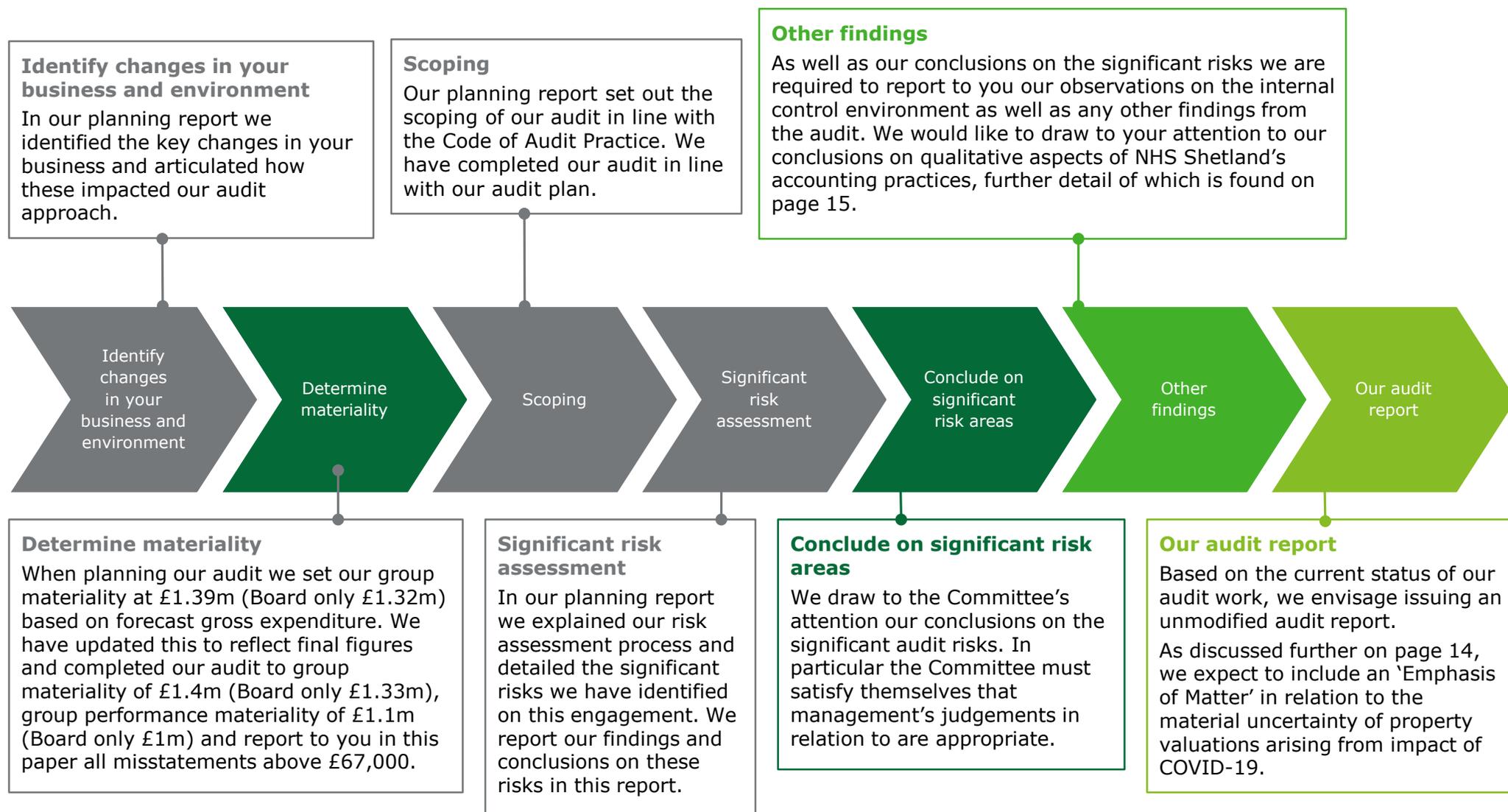
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		Management provided sufficient documentation to support key accounting judgements and estimates made in the preparation of the Annual Report and Accounts in line with the agreed timeline.
Adherence to deliverables timetable		In March 2020, management flagged that the audit would not be able to occur in line with the originally agreed timetable. Contact between NHS Shetland and Deloitte was maintained throughout April and May to monitor the situation and a revised timeline was agreed to conduct the audit in June and July, with deliverables provided in line with this revised timetable. The revised timeline still complies with revised deadlines set by the Scottish Government.
Access to finance team and other key personnel		Deloitte and NHS Shetland have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		On the whole documentation provided has been of a good standard. However, we encountered some issues with the documentation and evidence provided for the Remuneration and Staff Report, accruals and journals posted in the year.
Quality of draft financial statements		A full draft of the annual report and accounts was received for audit on 4 July 2020. Whilst generally compliant with reporting requirements, a number of amendments were required, as discussed further on page 18.
Response to control deficiencies identified		We have not identified any significant control deficiencies during the course of our audit.
Volume and magnitude of identified errors		We have not identified any significant financial adjustments to date. We have identified a number of disclosure adjustments, as set out on page 42 – 43, which could have been prevented by a more detailed management review.

 Lagging  Developing  Mature

Our audit explained

We tailor our audit to your business and your strategy



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Operating within the expenditure resource limits			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Operating within the expenditure resource limits

Risk identified

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In line with the prior year, we do not consider this to be a significant risk for NHS Shetland as there is little incentive to manipulate revenue recognition with the majority of revenue being from the Scottish Government which can be agreed to confirmations supplied.

We therefore considered the fraud risk to be focused on how management operate within the expenditure resource limits set by the Scottish Government. There is a risk is that the Board could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position. The significant risks was therefore pinpointed to the completeness of accruals and existence of prepayments made by management at the year end, and invoices processed around the year end as these are the areas where there is scope to manipulate the final results.



Key judgements

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.

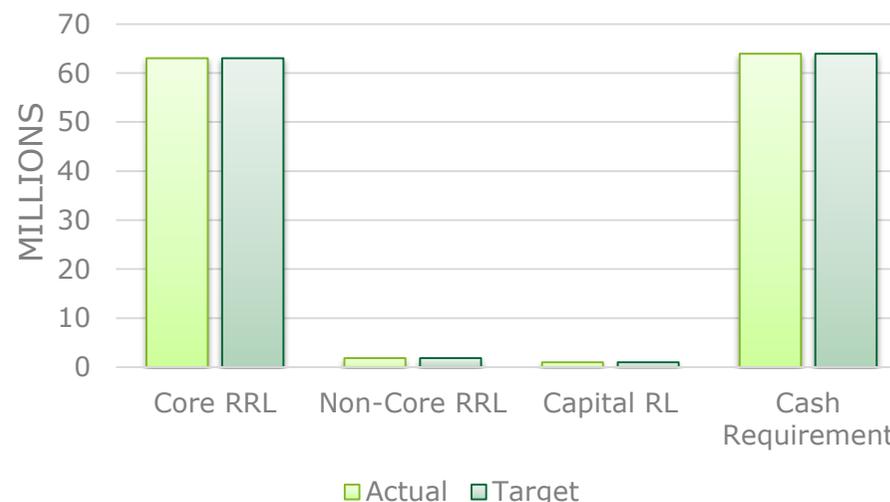


Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the Scottish Government. Our work in this area included the following:

- evaluating the design and implementation of controls around monthly monitoring of financial performance;
- obtaining independent confirmation of the resource limits allocated to NHS Shetland by the Scottish Government;
- performing focused testing of accruals and prepayments made at the year end; and
- performing focused cut-off testing of invoices received and paid around the year end.

2019/20: Actuals vs Resource Limits



Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

We confirm that NHS Shetland has performed within the limits set by the Scottish Government Health and Social Care Directorate and therefore is in compliance with the financial targets in the year.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- NHS Shetland's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood and regular discussions were held with Scottish Government; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates and judgements

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements (see summary on the following page).

We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result. We tested accounting estimates and judgements focusing on the areas of greatest judgement and value, including:

- CNORIS
- PPE Valuations

Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key estimates and judgements made by management.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

Significant risks (continued)

Risk 2 - Management override of controls (continued)

Key judgements

The key judgments in the financial statements includes those which we have selected to be significant audit risks around expenditure recognition (see page 11). This is inherently the area in which management has the potential to use their judgement to influence the financial statements. We have also specifically considered the judgements in property valuations given the material uncertainty as a result of COVID-19 (see page 14).

As part of our work on this risk, we reviewed and challenge management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
<p>Clinical Negligence and Other Risks Indemnity Scheme ('CNORIS') provision</p>	<p>NHS bodies in Scotland are responsible for meeting negligence costs up to a threshold per claim. Costs above this threshold are reimbursed from the CNORIS scheme by the Scottish Government. NHS Shetland provide 100% for Category three claims and 50% for all Category two claims notified by the NHS Central Legal Office, according to the value of the claim.</p> <p>NHS Shetland also provides for its liability from participating in the scheme. This provision recognises NHS Shetland’s respective share of the total liability of NHS Scotland as advised by the Scottish Government, based on information from NHS Boards and the Central Legal Office.</p> <p>As at 31 March 2020, the CNORIS provision was £1.66m.</p>	<p>The provision is valued by the Central Legal Office (CLO) based on the information on claims and historical experience. The value of claims is notified to NHS Shetland by the CLO. We have obtained independent confirmation directly from the CLO of all outstanding claims at 31 March 2020 and reconciled this to the amount recognise and challenged managements provision policy and concluded that it is reasonable.</p> <p>The provision for NHS Shetland’s share of the national liability is calculated by the Scottish Government based on information from the CLO in relation to all Boards. We have receive direct confirmation from the Scottish Government of the balance which has been reconciled to the amount recognised.</p> <p>We have also obtained assurance from Audit Scotland on the methodology used in the preparation of these figures and the relevance and reliability of the information provided by the CLO, with no other issues noted with the methodology adopted by the Scottish Government. Audit Scotland also concluded that the CLO is objective, has sufficient expertise and the capability, time and resources to deliver reliable information.</p>

Other areas of audit focus

Property valuations

Risk identified

The Board is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are, by nature, significant estimates based on specialist and management assumptions and which can be subject to material changes in value. We did not identify this as a significant risk in our Audit Plan as our property specialists, Deloitte Real Estate, reviewed the methodology applied by the Board's valuer in previous years and concluded it was robust.

The Board has had an independent valuation carried out at 31 March 2020 for the purposes of the 2019/20 financial statements. The impact of COVID-19 has led to a material uncertainty being identified by the Board's property valuer regarding the valuation of properties. Although our overall assessment of the risk level regarding the Board's property valuation has not increased to 'significant', we expect to include an 'Emphasis of Matter' in our audit report.



Key judgements

The valuation method has not changed from the prior year and is in line with International Financial Reporting Standards, with a full revaluation being carried out. The Board's revaluation has resulted in an upward valuation to property values of £273k.

NHS Shetland's property valuer identified a material uncertainty due to the impact of COVID-19 on individual markets (in line with RICS guidance published on 18 March 2020), as follows:

"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. In the UK, market activity is being impacted in all sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' per VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case."



Deloitte response

- We have engaged our property specialist and assessed the competency, capability and objectivity of the valuer.
- Our property specialists have performed an analytical review of revaluations and identified those which were not in line with expectation. Explanations and supporting evidence was provided for each outlier.
- We have assessed the presentation of revaluation movements and impairments, taking into account revaluation reserves for individual assets, and the disclosures included in the financial statements.
- We have reviewed the property valuer's report and assessed managements disclosure of the key source of estimation uncertainty.

Deloitte view

Based on the audit evidence obtained, we are satisfied that the valuation of NHS Shetland's estate is appropriate. However, we expect to include an 'Emphasis of Matter' in our audit report due to the material uncertainty identified by the valuers concerning valuations at 31 March 2020 due to the impact of COVID-19 on the property market. We raised a disclosure deficiency for the disclosure of this material uncertainty in the Annual Report and Accounts, as set out on page 42.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

We identified a number of areas of good practice in the Annual Report and Accounts, including the use of signposting and case studies to improve transparency. We identified areas of non-compliance with accounting standards and best practice in the adoption and disclosure of accounting policies, particularly in relation to key judgements and significant estimates and segmental analysis, as set out on page 42. We noted that NHS Shetland discloses a significant amount of immaterial information in its accounts, and recommend that immaterial or irrelevant disclosures are removed from future reporting.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Throughout the audit, we have held ongoing discussions with management on NHS Shetland's response to COVID-19 and future plans, in order to assess the adequacy of disclosures in the Annual Report and Accounts and to update our understanding of the entity and risk assessment.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

COVID-19 outbreak

Impact on the Annual Report and audit

The current crisis is unprecedented in recent times. The NHS is most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Audit Committees need to consider. Technical Accounting Group (TAG) has issued guidance relating to the impacts on the Annual Report to assist in making relevant disclosures. We summarise below the key impacts on reporting and audit:

Impact on the Annual Report and Accounts

NHS Shetland needs to consider the impact of the outbreak on the Annual Report and Accounts including:

- Principal risk disclosures
- Change in the funding regime for 2020/21
- Property valuation material uncertainty
- Impairment of non-current assets
- Allowance for expected credit losses
- Fair value measurements based on unobservable inputs
- Onerous contracts and any potential provisions
- Going concern
- Events after the end of the reporting period

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some NHS Shetland staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Timetable of the audit has been extended given the initial delay to the audit fieldwork, preparation of the Annual Report and Accounts, and Audit Committee date.
- Consideration of impacts on the areas of the Annual Report and Accounts listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with NHS Shetland, we will continue to consider any developments for potential impact up to the finalisation of our work in August 2020.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

As discussed on page 14, we expect to include an 'Emphasis of Matter' paragraph within our audit report in relation to the material uncertainty associated with the property valuations. There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 18.

Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Governance Statement and whether the Performance Report is consistent with the disclosures in the Accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines NHS Shetland's performance, both financial and non-financial. It also sets out the key risks and uncertainty as set out in the Annual Operational Plan.	<p>We have assessed whether the Performance Report has been prepared in accordance with the accounts direction. Other than updates which we required to be made in relation to disclosures on key risks and uncertainties facing NHS Shetland, no issues were noted.</p> <p>We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the Accountability Report meets the requirements of the Government Financial Reporting Manual ('FReM'), comprising the Governance Statement, Remuneration and Staff Report and the Parliamentary Accountability Report.	<p>We have assessed whether the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. Following our audit, changes have been made to disclosures on the qualification of Service Auditor reports and significant governance issues in the year.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report. Significant adjustments were made as a result of our audit work (as set out on page 43) to ensure that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that whilst the Board is yet to approve an annual budget for 2020/21, the draft budget has identified a funding gap of £3m for the year. We have concluded that although the situation is challenging (as discussed further on page 22), the plan is sufficiently robust to demonstrate that NHS Shetland will be a going concern for 12 months from the date of signing the of the Annual Report and Accounts.</p> <p>We have requested that management specifically disclose their considerations in relation to the additional funding from the Scottish Government and the impact of COVID-19 on the ability of NHS Shetland to operate as a going concern in the Annual Report and Accounts. Management have now included this additional disclosure.</p>

Audit dimensions and Best Value



Audit dimensions

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers relevant risks identified by Audit Scotland.

Financial management

Financial sustainability

Value for money

Governance and transparency

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Areas considered

We have provided an update for the Committee on areas considered in the prior year audit report. Within our audit plan we did not identify any specific audit risks in relation to financial management. However, we noted that we would continue to review NHS Shetland’s financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans.

2019/20 financial performance

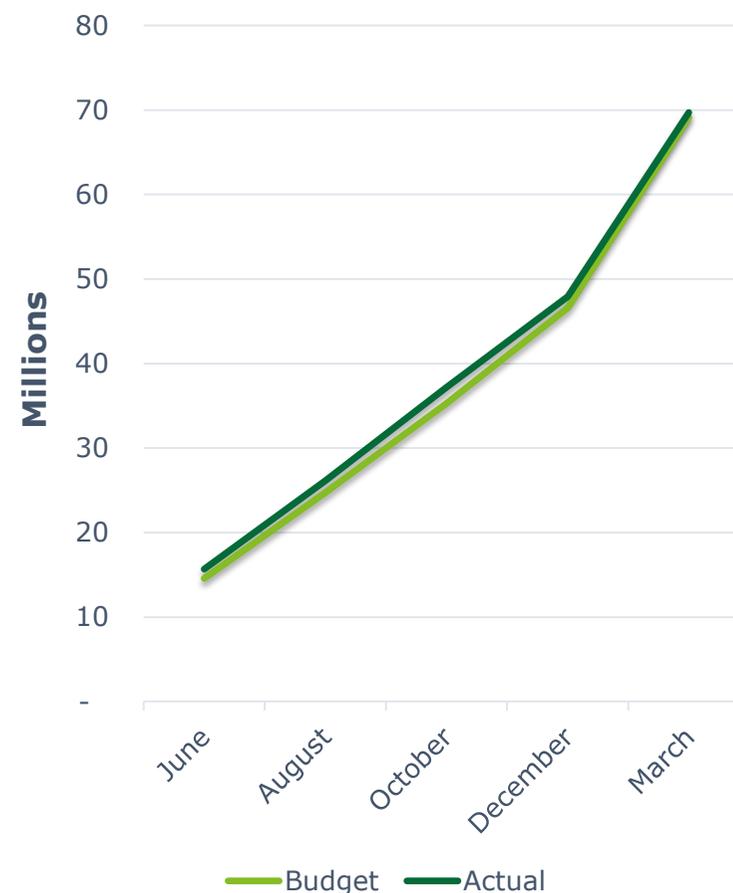
2018/19 Conclusion: NHS Shetland achieved a year-end breakeven position, due to the receipt of additional funding of £1.2m from the Scottish Government for primary care.

2019/20 Update: At the end of Q1 2019/20, NHS Shetland reported an overspend of 7.6% against budget. By Q3 2019/20, this had decreased to 2.9%, forecasting a year-end breakeven position subject to confirmation of £1.2m funding for primary care from the Scottish Government. This funding was subsequently received.

The overspends against budget in the year relate to the use of supplemental or locum staffing, with workforce management presenting an ongoing challenge for financial sustainability of the NHS Shetland.

The largest overspends are within acute and specialist services, and community health and social care. This point, and the reasonableness and robustness of budgeting, are considered within ‘financial reporting’ on the following page.

2019/20 Conclusion: NHS Shetland ultimately achieved an underspend against its resource limit of 0.1%, and therefore operated within its expenditure limits for the year.



Financial management (continued)

Financial reporting

2018/19 Conclusion: There is a lack of clarity in the financial monitoring reports as to why the budgeted amount for each category of spend has changed in the year. We raised questions about the approach to budgeting for departments which continually overspend against budget each year.

2019/20 Update: Amendments to the budget are made throughout the year, to take account of changing circumstances and events which were not foreseen when the budget was agreed. Although the change to the overall budget is immaterial - 1% movement, £0.56m - the movement within categories is more substantial, particularly within acute and specialist services (increase of 16%) and community health and social care (8%).

It is important to note that in 2017/18 and 2018/19, it was also within these two categories that the overspends were noted. Compared against the 2018/19 budget, the 2019/20 budget for these categories increased by 9% and 6% respectively. However, compared to the 2018/19 actual, the budgets represented a decrease of 3% and 5% respectively.

We have not identified any issues with the timeliness of financial reporting. From review of the financial monitoring reports and discussion with senior officers and Board members within NHS Shetland, we have identified that improvements can be made to financial reporting. The key questions that need to be addressed are:

- Are the financial monitoring reports clear, relevant and concise?
- Do they provide the Board with high quality, easy to understand commentary and analysis?

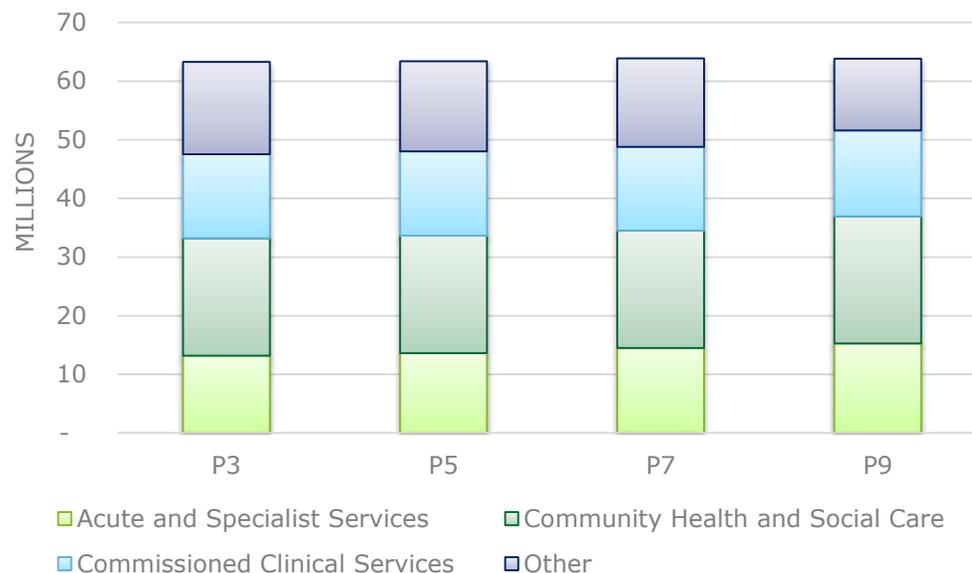
Currently, while there is an abundance of information presented, it is highly technical and difficult to understand. We welcome NHS Shetland's priorities for 2020/21 which include linking "quality, safety, performance and finance to establish accountability and assurance visible through the Board."

2019/20 Conclusion: As with 2018/19, improvements are required in the accuracy of forecasting within NHS Shetland. Between 2017/18 and 2019/20, NHS Shetland has under-budgeted for acute and specialist services by 15% on average, and 14% on average for community health and social care. This increases the difficulty of planning, and results in reductions needed to be made in other areas during the year to offset the increased costs in these areas which were not, but should have been, foreseen.

Management, the finance function and the Board should review the style of reporting and agree revisions to the financial monitoring reports to ensure they meet the needs of the Board. We are aware that internal audit intend to consider this area in 2020/21.

As part of a revised approach, the Board should ensure that financial monitoring reports link with performance monitoring reports, in line with good practice as set out in the Audit Scotland Best Value Toolkit on Financial Management, in order to demonstrate the effectiveness and impact of NHS Shetland's use of its financial resources.

Budget Movements in the year



Financial management (continued)

Internal audit

2018/19 Conclusion: We completed an assessment of the independent and competence of the internal audit function, reviewing their work and findings with no significant issues noted. We shared concerns that were raised by the Chair of the Audit Committee on the rate of implementation of audit recommendations (56%), with this below NHS Shetland's target of 70%.

2019/20 Update: The internal audit function continued to be provided by Scott Moncrieff during 2019/20, following their reappointment as internal auditors for the period through to the end of 2021/22. In 2019/20, internal audit made 6 findings graded 'high' (the second highest grading), down from 9 in 2018/19.

The 2019/20 internal audit annual report provided reasonable assurance regarding the organisation's governance and internal control framework, the effective and efficient achievement of objectives and the management of key risks, except in respect of Mental Health Services and Information Governance where improvements are required.

During the year we have reviewed all internal audits presented to the Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

The rate of implementation of audit recommendations has improved significantly from 2018/19. Currently, against actions due to be completed by year end, 75% of actions due were completed, compared to 56% in 2018/19. This enabled the Committee to achieve its KPI of having 70% of internal audit actions completed on time. The Committee noted that "there was considerable need for intervention" in order to achieve this target, with this being highlighted at every Board meeting in 2019/20.

2019/20 Conclusion: We welcome the significant improvement in the year, however, we share the concerns of the Committee in this area. While we accept that resourcing is an issue, prioritisation must also be considered here. Management and the Board must make clear that the implementation of audit recommendations is a high priority, and should consider including this in the appraisal of relevant members of management. In order to progress this, the Board and Chief Executive should ensure that relevant management are present at Audit Committee meetings which are considering performance in areas for which they are responsible.

Financial capacity

2018/19 Conclusion: NHS Shetland has suitably qualified and experienced staff leading the finance team.

2019/20 Update: From our audit work over the past number of years, we are satisfied that there are suitably qualified and experienced officials leading the finance team within NHS Shetland. We note that there have been no changes in the leadership of the finance function in the year.

2019/20 Conclusion: Our conclusion from 2018/19 remains valid.

Standards of conduct for prevention and detection of fraud and error

We have reviewed NHS Shetland's arrangements for the prevention and detection of fraud and irregularities. Overall we found the arrangements to be designed effectively and appropriately implemented.

National Fraud Initiative (NFI)

All relevant public bodies are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor NHS Shetland's participation and progress in the NFI during 2019/20 and submitted an assessment of NHS Shetland's participation to Audit Scotland in February 2020. The information submitted will be used by Audit Scotland in its national NFI report which is due to be published in the summer of 2020.

We concluded that NHS Shetland was fully engaged in the exercise.

Financial management (continued)

Fraud and corruption in respect of the procurement function

As noted in our audit plan, and in accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We have therefore considered NHS Shetland's controls and processes as a matter of particular focus.

We welcome that the Board sets out clear expectations in relation to the acceptance of gifts and hospitality in its Corporate Government Handbook, Scheme of Delegation, and staff induction.

Within the various risk management documents in NHS Scotland, there is no consideration of the risk of fraud or corruption in the procurement process. While there are detailed policies in place in relation to procurement, we have not been able to identify evidence to demonstrate that adherence to the policies is enforced, with management accepting that there is still a relatively high number of 'off system' orders, circumventing the controls in place.

While advice and assistance is available from National Services Scotland in relation to procurement, there is no formal training in place in relation to procurement within NHS Shetland.

NHS Shetland should ensure that the Whistleblowing Policy makes clear that staff can refer their concerns directly to prescribed persons or regulations. In our view, given the importance of this policy, employees should be actively notified when it is reviewed and updated and made aware of its existence.

Given the length of time from the most recent internal audit (2013) and given the potential issues identified above, we are pleased to note that NHS Shetland are engaging internal audit to assess the effectiveness of the processes in place in 2020/21.

Deloitte view – Financial management

Significant resources have been deployed to increase capacity to cope with increased health and social care demands as a result of COVID-19. This has put additional pressures on finance staff with weekly reporting in place to the Scottish Government to assess the financial impact of COVID-19. It is important that this is closely monitored.

NHS Shetland has effectively designed and appropriately implemented standards of conduct for the prevention and detection of fraud and error, and is actively engaged in the NFI exercise.

NHS Shetland has suitably qualified and experienced staff leading the finance team. NHS Shetland operated within its expenditure limits for the year. As with 2018/19, improvements are required in the accuracy of forecasting.

Management, the finance function and the Board should review the style of reporting and agree revisions to the financial monitoring reports to ensure they meet the needs of the Board, including clear links to performance reporting.

We welcome the significant improvement in the year in responding to internal audit actions, however, further work is needed in this area. In order to progress this, the Board and Chief Executive should ensure that relevant management are present at Audit Committee meetings which are considering performance in areas for which they are responsible.

We have identified risks in the procurement processes at NHS Shetland, including a lack of training, insufficient evidence of enforcement of controls, and 'off system' ordering with minimal oversight. These processes should be reviewed in 2020/21, and we consider that internal audit could provide assurance in this area.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



Areas considered

We have provided an update for the Committee on areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risk identified was:

- There is a risk that that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised.

Short-to-medium-term financial balance

2018/19 Conclusion: NHS Shetland achieved a breakeven position, following additional funding of £1.2m in funding from the Scottish Government in relation to primary care. NHS Shetland identified the need to make £9.671m of savings by 2023/24. We expressed significant concerns about the financial sustainability of NHS Shetland overall.

2019/20 Update: As discussed further in financial management, NHS Shetland achieved a breakeven position for 2019/20. However, this was only achieved due to additional funding of £1.2m from the Scottish Government for primary care, again bringing funding for primary care locally in line with other island health boards. We are aware that from 2020/21 onwards, NHS Shetland has built this funding into its budget to improve forecasting.

NHS Shetland has identified that it will need to make £8.3m (3.9% of total expenditure) worth of savings by 2023/24 in order to be in a financially sustainable position, as shown in the graph below. This is a minor deterioration on the position as at the start of 2019/20, when 3.7% of total expenditure needed to be achieved as savings by 2023/24.

In preparing the 2020/21 budget, NHS Shetland has highlighted that the Annual Operating Plan process has been frozen and special funding arrangements are being put in place for additional COVID-19 costs. The budget therefore does not incorporate these costs.

It also noted that a risk assessment of the savings plans had been undertaken to take into account the impact of COVID-19 work taking priority and making assumptions around how long the additional pressures on services will last. The budget has assumed that any shortfall in funding will be met on a non-recurring basis by the Scottish Government in 2020/21 from COVID-19 funding.

COVID-19 demands will place much greater pressure on health and social care services in 2020/21 and the Scottish Government have indicated that they will fund these additional costs.

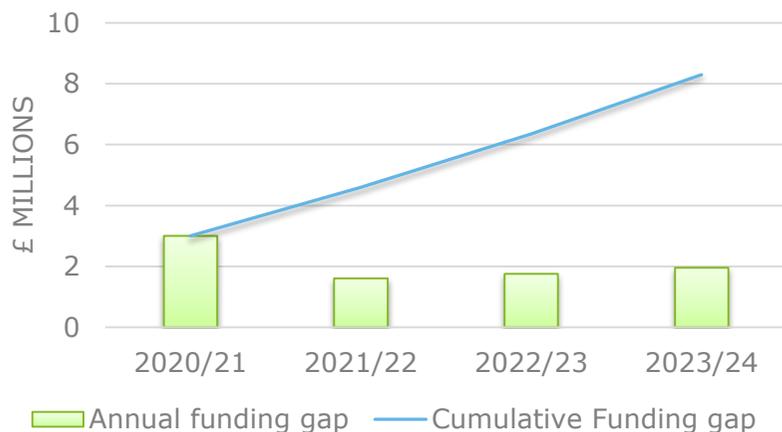
2019/20 Conclusion: While NHS Shetland has a history of making necessary savings, there remains a significant risk about the achievability of these savings targets without transformational change, particularly given that NHS Shetland is increasingly reliant on non-recurring savings and that it is likely to face more difficulties in light of the COVID-19 pandemic.

Financial sustainability (continued)

Short-to-medium-term financial balance (continued)

As the medium-term financial situation becomes clearer in 2020/21, NHS Shetland needs to ensure it appropriately revises its medium-term financial plan to account for the significant changes that have occurred since the plan was originally prepared in February 2020.

Given the level of savings identified before considering the impact of COVID-19, NHS Shetland's history of not achieving savings targets and the budget deficit position, NHS Shetland continues to face a significant and increasing risk to achieving financial sustainability.



Achievement of savings

2018/19 Conclusion: The level of savings achieved by NHS Shetland increased by 52% between 2014/15 and 2018/19, from £2.5m to £3.8m, with 58% of these being non-recurring. As has been highlighted in every external audit annual report since 2014/15, the reliance on non-recurring savings is not sustainable in the longer term, and fails to address the fundamental question of how the NHS does and should deliver its services.

2019/20 Update: As illustrated in the chart below, savings achieved in the year have declined from £3.8m in 2018/19 to £3.3m in 2019/20. The increasing reliance on non-recurring savings (increasing from 58% in 2018/19 to 75% in 2019/20), and the reduction in savings achieved each year: savings achieved have declined by 22% from a peak of £4.6m in 2017/18 to £3.3m in 2019/20.

The savings achieved in 2019/20 demonstrate the relevance of these concerns: the overall level of savings achieved dropped by 15% in the year, due primarily to an inability to identify recurring savings. NHS Shetland remains considerably above the national average for reliance on non-recurring savings (50%).

2019/20 Conclusion: Our conclusion in 2018/19 remains valid. NHS Shetland continues to face significant challenges in achieving the savings required. In order to ensure future financial sustainability, it is critical that realistic targets with clear plans are set, ensuring there is sufficient lead time to implement the changes required.

Savings Analysis 2015/16 to 2019/20



Transformational change

2018/19 Conclusion: Despite audit recommendations made in 2017/18, there remains a lack of appropriate infrastructure in place to deliver the required transformational change. There is a lack of progress on transformation in recent year. The importance of transformational change in ensuring the longer-term sustainability and viability of NHS Shetland does not appear to be fully understood and appreciated collectively by management.

Financial sustainability (continued)

Transformational change (continued)

2019/20 Update: NHS Shetland decided to stand down the Transformational Change Programme Board, with responsibility for this being subsumed within the Executive Management Team ('EMT'). As with 2018/19, there is no officer who is primarily responsible for driving transformational change and ensuring a consistent approach is taken across the organisation. We are pleased to note that in early 2020/21, the EMT is progressing a proposal to establish a Project Management Office function and we expect that this will improve the pace of change in future years.

Given the lack of reporting in the year, it is difficult to assess whether transformational change is progressing at the pace required. However, the ongoing underachievement of recurring savings targets would suggest that it is not. It is unusual that there has been no reporting to either the Board or the Audit Committee on progress with transformational change in 2019/20.

Despite our underlying concerns regarding transformational change across NHS Shetland, we were impressed by the 'Caring for Bressay' project, which NHS Shetland worked in partnership with Shetland Islands Council and the Integration Joint Board to deliver. This partnership working exercise resulted in a high quality report being prepared, setting out the options for a transformational change in the service provided to the residents of Bressay. There was extensive stakeholder and community engagement, with significant community buy-in to the proposed changes. While the financial savings to be realised from this project will not be significant, there is the potential for a substantial improvement in outcomes achieved for local service users. This project is an example of what NHS Shetland can achieve with regards to transformational change.

2019/20 Conclusion: We welcome planned changes to the infrastructure in place to support transformational change. NHS Shetland needs to ensure that good practice is shared across the organisation and rolled out further. In our view, there needs to be improved reporting to the Committee or Board on progress against transformational change in the year. Significant work is still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to impact on original timelines.

Workforce planning

2018/19 Conclusion: NHS Shetland has a workforce plan in place and is involved in innovative approaches to improve recruitment and retention. Improvements to the workforce plan are needed, in terms of projecting the future workforce, costing the changes needed and putting plans in place to navigate the required changes.

2019/20 Update: NHS Shetland revised its workforce plan in 2019/20, and we welcome substantial improvements which were made in the year, including clear links to anticipated changes in healthcare service delivery and their impact on the workforce. The plan is linked to NHS Shetland's policy framework and priorities for the following 3 years, and includes an action plan to progress the issues identified in the plan.

2019/20 Conclusion: While we welcome the improvements made in the year, as with 2018/19, we would encourage further improvements in line with good practice based on national reports, with clear projections of the future workforce, taking into account estimated changes in demographics and health factors, setting out detailed plans for how NHS Shetland expects to move from its current workforce to the workforce required over the medium term. NHS Shetland should also ensure that its workforce plan links with the plans of the Integration Joint Board. We are encouraged that one of the key priorities in 2020/21 expressed by the new Chief Executive is the development of improved workforce plans, and we will continue to monitor progress in this area.

Financial sustainability (continued)

Agency spend

2018/19 Conclusion: Between 2013/14 and 2018/19, agency spend increased by 120%. The impact of the reliance on the financial sustainability of NHS Shetland is significant, with the rate of spend on agency staff rising at a rate twice the national average. Being in line with the national average would have saved NHS Shetland £2.3m per annum by 2018/19.

2019/20 Update: In the current year, the trend of increasing reliance on agency staff has been reversed (as shown in the below graph). Between 2018/19 and 2019/20, we are pleased to note that agency costs have dropped from 10.5% of staff costs to 8.6%, and that overall expenditure on agency staff declined by 10% from £3.5m to £3.2m in the year.

Across Scotland, spend on agency staff has increased year on year, and we are therefore pleased to see that Shetland is an exception to that trend this year. We are aware of innovative approaches to addressing workforce challenges being adopted by NHS Shetland - such as the 'GP Joy' and 'Adventurers and Wanderers' campaigns - which have started to yield positive results and for which we commend the Board.

2019/20 Conclusion: We commend NHS Shetland on the improvements made in the year. NHS Shetland will need to maintain its focus on addressing the longer-term workforce challenges it faces, particularly in light of the uncertainties created by the COVID-19 pandemic and the United Kingdom's withdrawal from the European Union.

Agency costs



Deloitte view – Financial sustainability

Given the level of savings identified before considering the impact of COVID-19, NHS Shetland's history of not achieving recurring savings targets and the budget deficit position, NHS Shetland continues to face a significant and increasing risk to achieving financial sustainability. The impact of COVID-19 increases this risk, although we note that NHS Shetland expects to receive additional funding from the Scottish Government to cover COVID-19 associated costs.

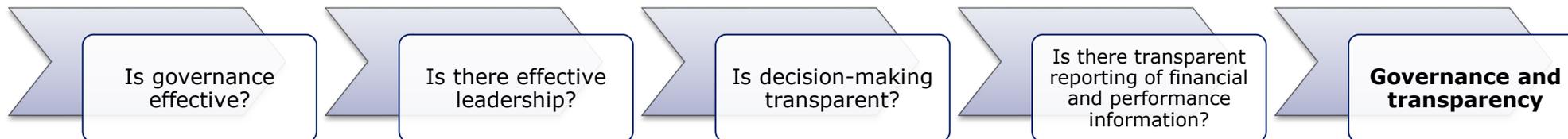
NHS Shetland continues to face significant challenges in achieving the savings required to achieve a financially sustainable position. While NHS Shetland has a history of making necessary savings (on a non-recurring basis), there remains a significant risk about the achievability of these savings targets without transformational change, particularly in light of the difficulties that NHS Shetland is likely to face following the COVID-19 pandemic.

We welcome planned changes to the infrastructure in place to support transformational change. Significant work is still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to impact on original timelines.

While we welcome the improvements made to workforce planning in the year, we would encourage further improvements in line with good practice, with clear projections of the future workforce. NHS Shetland should also ensure that its workforce plan links with the plans of the Integration Joint Board.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information



Areas considered

We have provided an update for the Committee on areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risk identified was:

- There is an ongoing risk that Board members do not have sufficient skills and resources to perform their role effectively.
- There is an ongoing risk that that the Integration Joint Board does not achieve the full benefits of integration.

Openness and transparency

2018/19 Conclusion: NHS Shetland has a good attitude to openness and transparency and there is a supportive culture that underpins this.

2019/20 Update: Following our comment in our prior year report, we are pleased to that the Standing Orders were updated in 2019/20. Sufficient information on the plans, policies and performance of NHS Shetland is publicly disclosed through public reporting and on NHS Shetland's website.

As with public bodies across the country, NHS Shetland has been severely impacted by the COVID-19 pandemic. Detailed information has been published on NHS Shetland's website to inform the public, and NHS Shetland has taken an active role in engaging with the local media to provide additional information to the community.

2019/20 Conclusion: We were impressed by the community spirit shown by the local Shetland community and NHS Shetland in the response to the COVID-19 pandemic, for example through NHS Shetland's request for 'homemade' scrubs and the community's response to that.

We have been particularly impressed by the CEO using his personal Facebook page to host weekly 'Facebook Live' meetings throughout the pandemic, providing visible leadership and reassurance to the community during these unprecedented times. Not only are these events hosted by the CEO, but they are arranged at times that suit the community - based on polling - as opposed to what necessarily suits the CEO. We are aware that these events are evolving to include other senior staff within NHS Shetland to provide a deeper insight for the community into the operation of the organisation. This is an excellent example of good practice in openness and transparency, demonstrating a real personal commitment, and utilising technology in an innovative way to drive continuous improvement in this area.



Governance and transparency (continued)

Decision-making

2018/19 Conclusion: The minutes of Committee and Board meetings are generally well documented and sufficiently detailed. To further improve transparency in decision-making, Committee minutes should be made publicly available on NHS Shetland's website.

2019/20 Update: In 2018/19, we noted that Committee minutes were not publicly available, with only verbal updates provided to the Board, resulting in minimal information on the operation of committees being publicly available. We noted that addressing this was identified as an action point in the plan agreed by NHS Shetland following their self assessment in March 2019.

We are pleased to note that in 2019/20, written copies of the minutes of Committee meetings are included in Board reporting packs, with these also being publicly available on NHS Shetland's website.

2019/20 Conclusion: We welcome the improvement in the year, and are satisfied that this substantially improves NHS Shetland's transparency surrounding decision-making.

Effectiveness of scrutiny

2018/19 Conclusion: Board members noted that their induction and training was inappropriate and inadequate to their needs. The Board needs to critically consider the skills it has and identify skill gaps and training needs, addressing these as a matter of priority.

2019/20 Update: Due to a change in systems used for training in the year, it has not been possible for NHS Shetland to provide an analysis of training provided in the year, and it is not clear that the effectiveness of training is monitored. Management have noted that this should improve as the new system embeds.

2019/20 Conclusion: As we noted in 2018/19, there has been no documented consideration by NHS Shetland of whether the Board and its Committees have the right skills, knowledge and expertise. We reaffirm our view that this should be built in to the annual self-assessment completed by the Board and Committees.

Leadership

2018/19 Conclusion: There were a number of changes in the year, including a new Chairman being appointed and the Chief Executive announcing his intention to leave his post in early 2019/20. We concluded that NHS Shetland has strong leadership and a clear vision for what it wants to achieve for the people of Shetland, which is supported both by the Board and by staff.

2019/20 Update: There have been a number of changes in the year in senior positions within NHS Shetland, most notably at Chief Executive level. In April 2019, Ralph Roberts left NHS Shetland and was replaced by Simon-Bokor Ingram (previously Chief Officer of the Integration Joint Board) as Interim Chief Executive. Michael Dickson was appointed as Chief Executive from January 2020.

We have identified numerous improvements as a result of the fresh perspectives brought by changes in leadership in the year, including an improved focus on partnership working with Shetland Islands Council and the Integration Joint Board, a keen interest in improving openness and transparency, an improved response to internal audit action points, and a recognition of improvements required in financial and performance reporting and planning.

We are aware that the current CEO has taken on a dual role as Chief Executive of NHS Orkney as well as NHS Shetland for the foreseeable future. This is a heavy workload, particularly in the current situation as both health boards navigate their recoveries from the COVID-19 pandemic, and this will need to be monitored closely to ensure that any risks to NHS Shetland are mitigated.

2019/20 Conclusion: From our meetings with all of the above and review of handover documentation, we are satisfied that there were effective processes in place to ensure continuity of leadership and to mitigate any risks posed by changes in senior positions. We welcome the improvements driven in integration and openness and transparency as a result of leadership changes in the year. We remain of the view that NHS Shetland has strong leadership and a clear vision.

Governance and transparency (continued)

Governance arrangements

2018/19 Conclusion: NHS Shetland carried out a self-assessment against the Blueprint for Good Governance to identify areas for further improvement. The Board had not carried out appraisals or a self-assessment since 2016, despite this being an annual requirement. We highlighted our concerns around the level of attendance at certain committees within NHS Shetland. Ultimately, we concluded that NHS Shetland generally had effective governance arrangements in place.

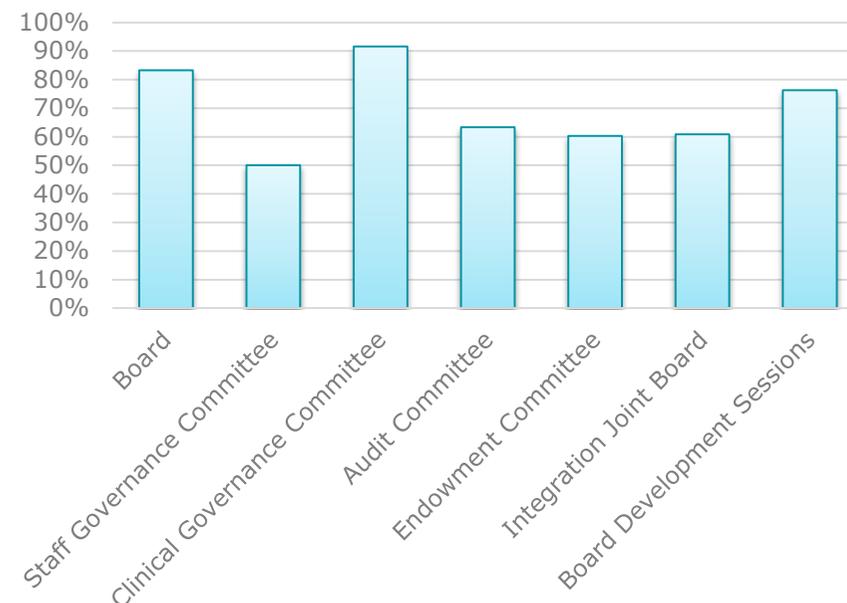
2019/20 Update: Internal audit noted in October 2018 that Board member appraisals and a Board self-assessment had not been completed since 2016, despite the requirement for these to be completed annually. We are pleased to note that a new online system has been established, with appraisals of Board members being documented within this system and subsequently supplied to NHS Education for Scotland to shape the training which is made available.

In 2018/19, we noted that there were a number of Committees where attendance was unacceptably low. We welcome improvements in the year, noting that attendance across Committees has increased from an average of 71% in 2018/19 to 78% in 2019/20. However, further improvement is required, particularly in relation to attendance at the Audit Committee. There are a number of members who have regularly had attendance at required Committees of less than 50%, and NHS Shetland needs to assess whether these members have the capacity to perform their role.

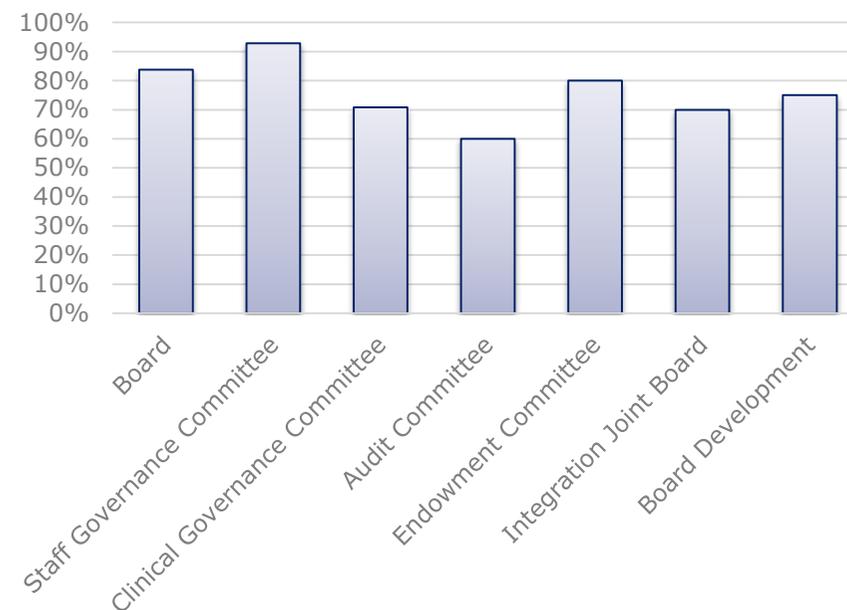
In response to the COVID-19 pandemic, temporary governance arrangements were put in place following the activation of NHS Shetland's Pandemic Plan. The Board met regularly, making effective use of teleconferencing facilities, ensuring that sufficient governance arrangements continued to operate throughout the response to the pandemic.

2019/20 Conclusion: We welcome the improvements in the year. We were pleased to note that in May 2020, a paper was presented to the Board, highlighting that COVID-19 has afforded NHS Shetland the opportunity to review its governance and meeting structure, enabling it to improve in areas identified in previous audits, and establish a governance structure that reflects the needs of the organisation. This paper included examples of governance frameworks at other NHS bodies, and encouraged Board members to reconsider the Blueprint for Good Governance, how they could improve engagement both within and outwith the organisation, and how they could be better supported by the organisation to be fully effective in their roles. This is an ongoing process and we will assess the effectiveness of any changes made in our audit in 2020/21.

Attendance at Committee & Board (2018/19)



(2019/20)



Governance and transparency (continued)

Health and social care integration

2018/19 Conclusion: Financial planning is not integrated, long term or outcome focused. The NHS should work with the Shetland Islands Council to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. The NHS needs to work with the Council and IJB to review and set out more clearly the roles and responsibilities of each of the partners, through a review of the Integration Scheme.

2019/20 Update: In line with the Public Bodies (Joint Working) (Scotland) Act 2014, NHS Shetland is required to work together with Shetland Islands Council and the Integration Joint Board to formally review the Integration Scheme by the fifth anniversary of its approval, being May 2020. This review has not been completed and NHS Shetland, along with its partner organisations, is non-compliant with the relevant legislation. The requirement for this review for communicated to all three organisations during our audits in summer 2019, and insufficient progress was made in early 2020, with planned work on this area then further delayed due to the COVID-19 pandemic.

A key aim of integration is to shift the balance of care from acute to community based care. From 2016/17 to 2018/19, NHS Shetland has noted a shift from 49% acute, 51% community based, to 48% acute, 52% community based. Whilst this is an issue nationally, there is little evidence locally to date that there has been an effective shifting in the balance of care. Transformational change, as discussed within financial sustainability, will be key to shifting the balance of care.

We are pleased to note that the Chief Executive accepts that progressing integration will be key to delivering improved outcomes and ensuring financial sustainability. We have been assured by the Chief Executive's Statement in the Annual Report and Accounts, noting that "the integration of services is a vital part of our plans moving forward." We particularly welcome the decision by NHS Shetland to fully fund its component of the IJB, resulting in improved working relationships and enabling the IJB to plan more effectively.

2019/20: NHS Shetland needs to work with the Council and IJB as a matter of priority to review the Integration Scheme, as required by law. A focus on shifting the balance of care through integration and transformational change is pivotal not only to improving outcomes for patients, but for the financial sustainability of NHS Shetland.

Deloitte view – Governance and transparency

NHS Shetland continues to have strong governance structures and leadership in place. Appropriate processes have been put in place to temporarily change the governance arrangements in response to COVID-19.

NHS Shetland needs to work with the Council and IJB as a matter of priority to review the Integration Scheme, as required by law.

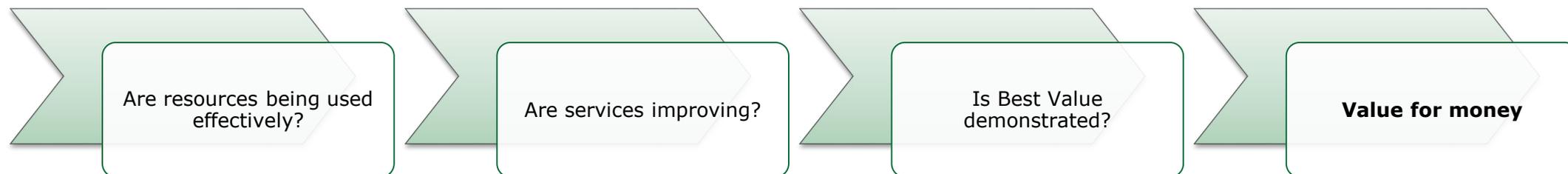
NHS Shetland has a commendable attitude towards openness and transparency, with notable actions in the year, particularly in response to COVID-19 (such as the use of Facebook Live by the Chief Executive and the community response to NHS Shetland's appeal for homemade scrubs). We also welcome the decision of NHS Shetland to make the minutes of Committee meetings publicly available, in response to our audit recommendation in 2018/19. These are excellent examples of good practice in openness and transparency.

There were a number of changes in the Chief Executive position in the year. We are satisfied that there were effective processes in place to ensure continuity of leadership and to mitigate any risks posed by changes in senior positions. We welcome the improvements driven in integration and openness and transparency as a result of leadership changes in the year.

We were pleased to note that in May 2020, a paper was presented to the Board, highlighting that COVID-19 has afforded NHS Shetland the opportunity to review its governance and meeting structure, enabling it to improve in areas identified in previous audits, and establish a governance structure that reflects the needs of the organisation. This is an ongoing process and we will assess the effectiveness of any changes made in our audit in 2020/21.

Value for money

Value for money is concerned with using resources effectively and continually improving services.



Areas considered

We have provided an update for the Committee on areas considered in the prior year audit report. Within our audit plan we confirmed that the audit risk identified was:

- There is an ongoing risk that the Board is unable to demonstrate value for money in its decision-making.

Performance management framework

2018/19 Conclusion: NHS Shetland has a well established performance management framework in place. NHS Shetland should improve performance reporting to make it clear how successful historical management actions to address performance issues have been.

2019/20 Update: As noted on page 34, performance targets have remained relatively static year on year. Performance against targets on waiting times for psychological therapies continue to decline, despite management reporting in 2018/19 that an improvement plan had been put in place to achieve the 90% target by Q3 2019/20. We raised concerns in our 2018/19 audit that the method of reporting on performance does not enable the Board to monitor the effectiveness of management actions, as planned actions and updates provided are not monitored between performance reports. Understanding the effectiveness of previous management actions is key to obtaining assurance about planned management actions to address poor performance. We reaffirm our view that where performance is not meeting targets, management should follow up on previous updates in future performance reporting to set out whether planned actions had the anticipated impact and what lessons had been learned and mitigating actions planned if not.

The Annual Operational Plan for 2020/21 has been put on hold, including reporting on the standards, to allow full resources to be dedicated to the management of COVID-19.

2019/20 Conclusion: The Board continues to have well established performance reporting arrangements, but these are currently on hold due to the focus on the management of COVID-19.

Understanding the effectiveness of previous management actions is key to obtaining assurance about planned management actions to address poor performance. We reaffirm our view that where performance is not meeting targets, management should follow up on previous updates in future performance reporting to set out whether planned actions had the anticipated impact and what lessons had been learned and mitigating actions planned if not.

NHS Shetland should ensure that it assesses on an annual basis whether the targets it sets for its performance are reasonable and driving continuous improvement at the organisation. We reiterate our view expressed in 2018/19 that the Board may need to make difficult decisions and accept 'average' performance - amending targets and KPIs as appropriate - in some areas, whilst focusing resources on deemed priority areas. We recognise and accept that given the current financial position, balancing finances and performance may mean it is not possible to maintain current performance levels or methods of service delivery.

Value for money (continued)

Performance

2018/19 Conclusion: Performance declined substantially between 2017/18 and 2018/19. We concluded that management and the Board need to work together to identify resource needs and where resources can be reallocated. We recommended that NHS Shetland consider the targets and KPIs it sets, and focus on adopting alternative delivery models and driving transformational change and service redesign to improve performance whilst releasing financial savings.

2019/20 Update: Performance has improved slightly between 2018/19 and 2019/20, with the level of 'achieved' targets increasing from 67% to 70%, with those more than 5% off target decreasing from 24% to 22%.

Measured against key national waiting time targets, NHS Shetland improved performance in 4 areas and declined in 4 areas. Similar to the previous year, NHS Shetland met 4 of the targets and missed 4 of them. While this performance is higher than the national average, it is lower than other island health boards (NHS Orkney and NHS Western Isles both achieved 5 of the key waiting time targets.)

From our review of the targets against which NHS Shetland assesses its performance, we noted that in 2019/20, one target (2%) was increased, one target (2%) was reduced, and the remainder of targets (96%) remained static.

In 2018/19, we noted significant declines in performance in the referral time for psychological therapies, which is a key national indicator. Performance declined from approximately 75% within 18 weeks in 2016/17 to approximately 55% in 2017/18, to 33% in Q3 2018/19. In 2018/19, management earmarked funding for an additional therapist, with alternatives being provided to some on the waiting list. NHS Shetland noted that it had an improvement plan in place to achieve the 90% target by Q3 2019/20. Despite this, performance has continued to decline, to 16% in Q3 2019/20.

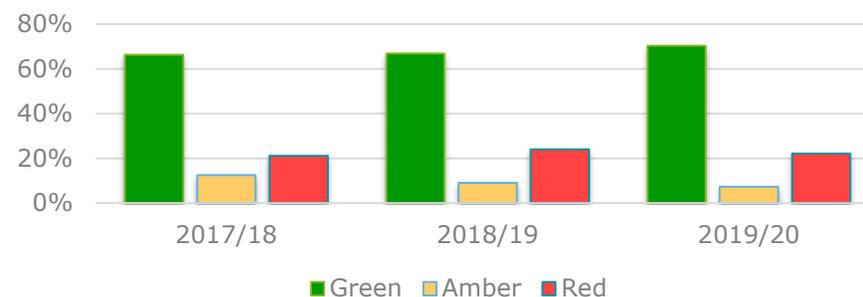
We have been impressed by the level of community engagement displayed by the Community Nursing function within NHS Shetland, and are highlighting this as an area of good practice. Between 2015/16 and 2019/20, patient satisfaction with Community Nursing services has increased from 98% to 100%, with the level of patients rating the service as 'good' or 'excellent' increasing from 94% to 98% in the same period. We are also aware that an NHS Shetland diabetes specialist nurse was named 'Nurse of the Year' in Scotland in 2019, following her nomination for the award by a patient. These are highly impressive ratings and accolades from patients and NHS Shetland should ensure that any lessons from these functions which can be applied across the organisation are learned.

Key to responding to significant unforeseen events - such as the COVID-19 pandemic - is having appropriate business continuity plans in place, updated and reviewed regularly. NHS Shetland has a performance measure for this, and we note that the percentage of business continuity plans updated annually declined from 88% in 2017/18, to 75% in 2018/19, to 61% by Q3 2019/20. While we have not been able to assess any potential impact this had on NHS Shetland's response to the COVID-19 pandemic, management and the Board need to ensure that lessons are learned and that going forward, business continuity plans are seen as a key priority, with outdated plans identified and updated as soon as possible.

2019/20 Conclusion: Given the long-running nature of the performance issues in the area of psychological therapies and the trend of declining performance, we have serious concerns about the ability of NHS Shetland to provide appropriate levels of service in relation to psychological therapies. We will monitor changes in performance in this area closely in 2020/21.

Prior to the COVID-19 pandemic, while actions have been identified to address area of poor performance, the impact is not yet evidenced in the performance data. Management should continue to focus on improving performance across NHS Shetland in relation to those measures that have consistently under performed compared to national targets. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

Performance: 2017/18 to 2019/20



Value for money (continued)

Use of business cases

2018/19 Conclusion: NHS Shetland needs to improve the robustness and consistency of business cases to underpin decision-making, demonstrating value for money in decisions taken.

2019/20 Update: We have reviewed examples of business cases which have been used to underpin decision-making in 2019/20, and are pleased to note an improvement on the prior year in the use of business cases to support decision-making.

We have noted that some business cases are detailed and robust (such as the business case for the refurbishment of the day surgical unit), clearly setting out value for money considerations, whereas others are at a very high level (with detail only regularly provided on the recommended option, with limited information provided on alternative options, undermining the usefulness of business cases as it deprives decision-makers of the information needed to make an informed decision on the option which demonstrates best value for money.)

2019/20 Conclusion: Further improvements in the consistency of business cases prepared is required, in line with good practice published by HM Treasury. This could be achieved through the development of a template business case for use across NHS Shetland, or publishing a checklist for preparers to assess their business cases against.

Focus on improvement

2018/19 Conclusion: We noted concerns in relation to the ability of the Board to satisfy itself as to the pace and progress with service improvement, based on the Board's own self-assessment. Of particular concern was the significant decline in those who feel that the Board receives sufficient high quality information to make effective decisions, and the ability of the Board to adjust medium and long-term projections based on current performance through the effective use of financial information.

2019/20 Update: The Board planned to perform a follow-up self-assessment in February 2020, to identify trends in performance. This was not completed as planned, and remains outstanding at the time of writing. It is unclear when the follow-up work self-assessment will be performed.

2019/20 Conclusion: Due to delays in assessments being performed, it is not possible for us to conclude on whether there have been improvements or otherwise in 2019/20. The areas of concern highlighted in 2018/19 are especially important as NHS Shetland navigates its recovery from COVID-19 and plans for the future. We will continue to monitor this in 2020/21.

Deloitte view – Value for money

The Board continues to have well established performance reporting arrangements, but these are currently on hold due to the focus on the management of COVID-19. Prior to the COVID-19 pandemic, while actions have been identified to address area of poor performance, the impact is not yet evidenced in the performance data. Management should continue to focus on improving performance across NHS Shetland in relation to those measures that have consistently under performed compared to national targets. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

In our view, where performance is not meeting targets, management should follow up on previous updates in future performance reporting to set out whether planned actions had the anticipated impact and what lessons had been learned and mitigating actions planned if not.

We have been impressed by the level of community engagement displayed by the Community Nursing function within NHS Shetland, and are highlighting this as an area of good practice. We are also aware that an NHS Shetland diabetes specialist nurse was named 'Nurse of the Year' in Scotland in 2019, following her nomination for the award by a patient. These are highly impressive ratings and accolades from patients and NHS Shetland should ensure that any lessons from these functions which can be applied across the organisation are learned.

Given the long-running nature of the performance issues in the area of psychological therapies and the trend of declining performance, we have serious concerns about the ability of NHS Shetland to provide appropriate levels of service in this area. We will monitor changes in performance in this area closely in 2020/21.

Best Value

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure **Best Value (BV)**.

The duty of Best Value, as set out in the SPFM

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance.
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development.

The SPFM sets out nine characteristics of Best Value which public bodies are expected to demonstrate. The refreshed guidance issued by the Scottish Government in 2011 focused on 5 generic themes and 2 cross-cutting themes, which now define the expectations placed on Accountable Officers by the duty of Best Value.

Five themes:

1. Vision and Leadership
2. Effective Partnerships
3. Governance and Accountability
4. Use of Resources
5. Performance Management

Cross-cutting themes:

1. Equality
2. Sustainability

BV arrangements

NHS Shetland has a number of arrangements in place to secure Best Value. This is evidenced through NHS Shetland's performance monitoring arrangements.

As noted elsewhere within this report, NHS Shetland has an established governance framework and dedicated leadership. We have welcomed the culture of continuous improvement in openness and transparency (page 29), although we have noted improvements are required to demonstrating improvement in performance (page 33).

As part of NHS Shetland's year-end process, the Accountable Officer obtains written assurances against the Best Value framework from the Chairs of the various committees within NHS Shetland and from the Executive Management Team, which is used to inform his opinion on whether arrangements to secure Best Value are in place.

NHS Shetland recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium to longer term financial sustainability.

Deloitte view – Best Value

NHS Shetland has arrangements in place to monitor performance and identify improvements through the use of self assessment. Subject to the improvements that we have identified which should be made in these areas as set out on pages 21 to 35, we are satisfied that the arrangements in place enable Best Value to be achieved.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast
2. Governments could be left with higher debt after a shock to the public finances
3. Debates around inequality and globalisation are renewed
4. Lines have blurred between organisations and sectors
5. The lockdown has accelerated collaborative technologies
6. Civil society has been rebooted and citizen behaviour may change
7. The legacy that still needs to be captured

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing.
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recover to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

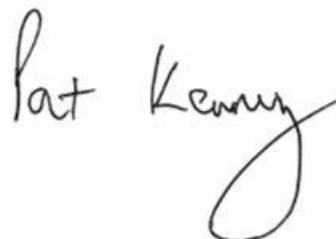
What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Pat Kenny, CPFA
For and on behalf of Deloitte LLP
Glasgow | 3 August 2020

Audit adjustments

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified up to the date of this report which management have corrected. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<p>Key sources of judgement and estimation uncertainty</p> <ol style="list-style-type: none">1. NHS Shetland needs to include as a key judgement the disclosure of the material uncertainty on the property valuations as reported by the property valuer.2. NHS Shetland should disclose the CNORIS provision as an area of significant estimation uncertainty.3. Key judgements and significant estimations need to be separately identified.	<p>IAS 8 – Disclosure must be made of the key judgements made by management in the preparation of the accounts and the sources of estimation uncertainty which could have a material effect on the amounts disclosed in the accounts.</p>	<p>Qualitatively material – This is an accounting standard requirement and is a key focus area for regulatory bodies.</p>
<p>Segmental analysis</p> <p>The disclosure on segmental analysis needs to be enhanced to include general information about how NHS Shetland have identified their operating segments.</p>	<p>IFRS 8 – Disclosure must enable the users of the Annual Report and Accounts to understand how a body has identified the operating segments for which it is providing segmental information.</p>	<p>Qualitatively material – This is an accounting standard requirement (in relation to a disclosure which is itself quantitatively material) and is a key focus area for regulatory bodies.</p>

Audit adjustments (continued)

Disclosures (continued)

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
<i>Remuneration and Staff Report</i>		
1. Pension benefits for certain disclosed individuals were stated as a negative, when the FReM requires that negative values are expressed as £nil.	FReM 5.3.20 – 5.3.28 – Detailed requirements for the preparation of disclosures in relation to the Remuneration and Staff Report are set out in the FReM.	Qualitatively material - Important for the users' understanding of the organisations remuneration, and to ensure compliance with applicable laws and regulations.
2. Disclosure of the real increase in pension lump sum as at 31 March 2020 was not disclosed.		
3. The headcount of NHS Shetland was incorrectly disclosed as the Whole Time Equivalent ('WTE') staff numbers.		
4. The highest paid director's remuneration was incorrectly disclosed.	The Trade Union (Facility Time Publication Requirements) Regulations 2017 – These Regulations set out that prescribed bodies must disclose information on trade union facility time in a prescribed format on their website and in the Annual Report and Accounts.	
5. The median total remuneration was incorrectly calculated.		
6. As a consequence of #4 and #5, the ratio of median pay to the midpoint of the banding of the highest paid director was also incorrectly calculated.		
7. The staff composition and WTE staff numbers disclosures incorrectly double counted a number of employees, resulting in these being overstated.		
8. NHS Shetland did not disclose the trade union facility time information required.		

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial management</i>	NHS Shetland should review the procurement process in the year, ensuring that sufficient training arrangements and controls are in place. NHS Shetland should consider engaging internal audit to assess the effectiveness of the processes in place.	<p>Chief Internal Auditor's plan for 2020-21 already includes an assignment on procurement that commences on 12 October 2020.</p> <p>Board currently engage National Procurement under a SLA to provide expert support and to ensure compliance with all relevant laws and regulations.</p> <p>Also at present collaboratively working in partnership with North and East Scotland Boards on procurement shared services and joint working to ensure best practice across NHS.</p> <p>Procurement training needs assessment will be completed for staff involved in procurement both within and outside supplies.</p>	Director of Finance	31/3/2021	Medium
2	<i>Governance and transparency</i>	<p>In order to improve the accountability arrangements in place at NHS Shetland and continue progress in addressing areas of poor performance and audit actions, the Board and Chief Executive should ensure that relevant management personnel attend Audit Committee meetings when performance or audits in their areas of responsibility are being discussed.</p> <p>The Audit Committee should report on an annual basis to the Board on the number of times each member of management was requested to attend, and their rate of attendance, to enable monitoring of this.</p>	<p>The lead officer for internal audits reports is routinely asked to attend the audit committee that their report is presented to.</p> <p>The Audit Committee under its terms of reference to call any officer of the Board to the committee to hold to account.</p> <p>The Audit Committee annual governance report will include from 2020-21 a register to record relevant management personnel attendance alongside that of the Audit Committee members and Auditors' attendance.</p>	Director of Finance	31/03/2021	Medium

Action plan (continued)

Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report. In relation to the financial statements, we made 3 recommendations: 1 has been fully implemented, 1 has been partially implemented and 1 is no longer relevant. In relation to the wider scope areas, we note that 7 of the total 18 recommendations made have been fully implemented. The remaining recommendations have either not been implemented or are only partially implemented and these are set out below. We will continue to monitor these as part of our audit work and provide an update in our 2020/21 audit.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability: Transformational change	<p>As recommended in 2017/18, NHS Shetland needs to put appropriate infrastructure in place to deliver the required transformational change. This needs to include a dedicated officer who is primarily responsible for driving transformational change and ensuring a consistent approach is taken across the organisation.</p> <p>The Transformational Change Board needs to work with wider stakeholders to identify areas of real transformational change which can be progressed, including consideration of alternative service delivery models.</p> <p>It is imperative that transformational change is driven from the top, with the Chair and the Chief Executive giving it the clear priority and associated resources that it deserves.</p>	<p>The EMT meetings are being reformatted so that there is a very clear ownership of Transformational Change. The Transformational Change Board will be discontinued as a standalone meeting.</p> <p>Each Director has clear objectives linked to the redesign projects detailed in the Strategic Commissioning Plan and through EMT and line management these directors will be held accountable for the delivery of change.</p> <p>The EMT Business Plan and Action Tracker will record decisions and progress.</p> <p>The Head of Planning and Modernisation is a dedicated officer who can support the redesign agenda and ensure a consistent approach is taken across the organisation.</p>	Chief Executive	31/3/2020	High	<p><i>Partially implemented:</i> Changes have been made in the year, although the underlying recommendation has not been addressed and remains in place. We are aware (as set out on page 27) that EMT is considering the establishment of a Project Management Office in 2020/21.</p> <p>Updated management response: EMT business programme in place which covers reporting on redesign and transformation. The Primary Care Redesign project board has been reinvigorated. There is extended facilitation for Professional Alliance which is focusing on unscheduled care and out of hours. The staff development team are building a database of all redesign projects across the organisation, so EMT will be able to track progress and outcomes. To enhance this further a project management support office (PMO) is being established in 2020-21 to enhance support to and the co-ordination delivery of redesign of services and pathways.</p> <p>Updated target date: 31/3/2021</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Governance & Transparency: Health and social care integration</i>	<p>The NHS needs to work closely with the Council and IJB in improving the robustness of the IJB's MTFP. The NHS should work with the Council to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. Further, the NHS needs to make sure that it involves the IJB in the development of the NHS workforce plans, to ensure the IJB's needs are met.</p> <p>The NHS needs to work with the IJB in assessing the capacity of health and social care integration. The IJB, NHS and Council need to critically evaluate whether current mechanisms are working in practice.</p> <p>The NHS, IJB and Council need to work together to clearly set out roles and responsibilities of each of the parties - in greater detail than currently set out in the Integration Scheme - ensuring consistency across the partner organisations and ensuring that delegation of responsibilities is carried out effectively.</p>	<p>The Integration Scheme, roles and responsibilities will be reviewed as part of the work emanating from the Self Evaluation for the Review of Progress with Integration of Health and Social Care.</p> <p>Each of the three partners – the IJB, NHS Shetland and Shetland Islands Council will complete the assessment and ultimately produce one aligned Development Plan for Shetland.</p> <p>This development plan will include a range of actions across many dimensions which will support and enhance our integrated working in Shetland.</p>	Head of Finance & Procurement	31/3/2020	High	<p><i>Not implemented:</i> There has been no update to the IJB's MTFP in the year, and the Integration Scheme has not been reviewed.</p> <p>Updated management response: The Council, NHS and IJB will work together to refresh the Integration Scheme and MTFP following a refresh of the Council's MTFP in September 2020. The Board's financial planning assumptions is being updated for August 2020.</p> <p>Updated target date: 31/12/2020</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Sustainability: Savings plans</i>	<p>NHS Shetland needs to develop detailed savings plans to address identified funding gaps. The approach to savings needs to be made more robust, as opposed to the 'salami slice' approach currently adopted, with additional efforts made to move away from reliance on non-recurring savings.</p> <p>Where savings cannot be identified, management and the Board need to work together to identify alternative methods of service delivery or changes to service provision which would be required to ensure NHS Shetland can achieve financial balance, accepting that there is a need to balance finances with performance and service delivery.</p>	<p>Board management view is the current process allocates savings across the various Directorates in a proportionate manner.</p> <p>Each Director can align savings schemes within their own directorates to the agreed change projects detailed in the Strategic Commissioning Plan, realistic medicine lead initiatives of best practice or the NHS shared services initiatives.</p> <p>The savings they generate from their actions do not necessary come from their own Directorate, as evidence by the repatriation of services savings that are credited to Acute and Specialist Services target rather than treated as a saving in Patient Travel.</p> <p>The financial reports to the Board highlights "Current models of services that have continuing difficulty in recruiting permanent staff may require to consider redesign options to identify alternative best practice service models."</p>	Director of Finance	Systems are already in place however in-line with continuous quality improvement these will be reviewed	High	<p><i>Not implemented:</i> There has been no progress on this recommendation in the year.</p> <p>Updated management response: Detailed savings plans can only be achieved when the redesign programme and the subsequent Strategic Commissioning Plan have been further developed. To facilitate this process a project management office (PMO) is being established in 2020-21 to support and assist in the delivery of the redesign projects whilst complying with access performance targets.</p> <p>Updated target date: 31/12/2022</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Sustainability: Scenario planning</i>	<p>NHS Shetland needs to prepare clear delivery plans aligned to the Strategic Commissioning Plan and the targets laid out within it, with sufficient resource and infrastructure in place to deliver the plans.</p> <p>As these plans are developed, Board Members should be more involved, taking ownership of specific plans to act as 'lead member' of the Board on each plan, helping to provide strategic direction in line with the Strategic Commissioning Plan and keep the Board up-to-date on progress.</p>	<p>Clear delivery plans, aligned to the Strategic Commissioning Plan, are owned by the Executive Directors who are held accountable through EMT and line management. The Board will have clear line of sight to change plans and their effect, both through Board meetings and their respective roles on Committees. Some projects will be the responsibility of the IJB to oversee delivery.</p>	Chief Executive	31/3/2020	Medium	<p><i>Not implemented:</i> There has been no progress in the year on the preparation of delivery plans for the Strategic Commissioning Plan.</p> <p>Updated management response: For 2020/21, the Executive and Non Executive members will align objective setting, which started with a development session in 2019 to start that process. This will give a clear line through from the Annual Operational Plan and Strategic Plan to the Board and EMT.</p> <p>Updated target date: 31/3/2021</p>
<i>Financial Sustainability: Medium-term financial planning</i>	<p>NHS Shetland needs to ensure that its Five Year Financial Plan outlines how anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrates a focus on improving outcomes.</p>	<p>In-line with continuous quality improvement this will be reviewed to determine how workforce planning, transformational change, Scottish Government policy theme, objectives set out in the Annual Operating Plan and the Strategic Commissioning Plan influence resource allocation. However at present the inter-relationship between resources and specific outcomes requires further academic research on cause and affect especially as impact can be more than 10 years after investment.</p>	Director of Finance And Director of Public Health	31/3/2020	Medium	<p><i>Not implemented:</i> There has been no progress in the year against this recommendation.</p> <p>Updated management response: The original response still remains valid. Financial plan is linked to our AOP priorities and Joint Strategic Commissioning Plan. Improvement is measured via our public health and health improvement team and included within their published annual report. Performance reports can also look to assess this.</p> <p>Updated target date: 31/3/2021</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Sustainability: Workforce planning</i>	NHS Shetland needs to further develop its Workforce Planning, ensuring it is future-focused, projecting the workforce against estimated changes in demographics and health factors. Accompanying this high-level analysis should be detailed plans which outline the expected workforce required, supported by analysis of workforce supply and demand trends. In doing this, NHS Shetland needs to cost the workforce changes needed and improve the accuracy of budgeting for agency spending.	Workforce Plan should be aligned to the Strategic Commissioning Plan and Medium Term Financial Plan. Whilst the overall recommendation has been placed under the Director of Human Resources – All Directors of Service need to ensure that they have enabled the production of the required workforce narrative from each of their teams to the timeframe requested from HR.	Director of Human Resources	31/12/2020	Medium	<p><i>Partially implemented:</i> The workforce plan, whilst updated, did not address the underlying recommendation, which remains in place.</p> <p>Updated management response: A revised workforce plan was prepared in August 2019. The staff budget was zero based in 2020-21 budget setting and future workforce plans will be linked to this establishment base.</p> <p>Updated target date: 31/01/2021</p>
<i>Financial Management: Budget setting</i>	When preparing the budget, management should consider actual performance in the year-to-date as the starting point, rather than the prior year budget, in order to ensure that the most up-to-date information is used when making budget decisions.	Current annual budget setting process considered adequate. Service managers submit cost pressures which are considered by EMT and Finance prior to approval by Board. Pay budgets are zero based each year on approved workforce establishment.	Director of Finance	31/1/2020	Medium	<p><i>Partially implemented:</i> The workforce plan, whilst updated, did not address the underlying recommendation, which remains in place.</p> <p>Updated management response: The staff budget was zero based in 2020-21 budget setting and future workforce plans will be linked to this establishment base. As part of the budget setting process managers have the opportunity to flag non-pay cost pressures and submit business cases for new services. IT upgrade funding and HEPMA were examples of this in 2020-21 process. Full Non-pay zero base in 2021--22 process plan.</p> <p>Updated target date: 31/01/2021</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Management: Budget transparency</i>	Narrative should accompany financial monitoring reports, outlining amendments to the budget which have been made and the reason for them, clearly explaining why the amendments were not foreseen at the time the original budget was prepared.	<p>Budgets are currently managed in line with the Board's Standing Financial Instructions. However, any material adjustments to budgets will be clearly outlined in the Financial Monitoring Reports.</p> <p>The Scottish Government current allocation practice normally results in new allocations every month.</p> <p>Board's practises for some demand led costs are to fund from a central reserve on a monthly basis to ensure impact is neutral.</p>	Director of Finance	31/3/2020	Medium	<p><i>Not implemented:</i> There has been no progress against this recommendation in the year.</p> <p>Updated management response: The original response remains valid. Reports to the Board will advise regard allocations received in period and whether they were I the original plan approved by the Board.</p> <p>Updated target date: 31/3/2021</p>
<i>Value for Money: Business cases</i>	NHS Shetland needs to develop a culture where the use of robust business cases to underpin decision-making is the norm, demonstrating value for money and assessing the impact on outcomes and service users of Board decisions.	A revised more robust business case template and process will be developed and consulted upon for use in all projects considered during 2019/20 and beyond.	Director of Finance	31/3/2020	Medium	<p><i>Partially implemented:</i> We have noted improvements in the use and documentation of business cases, although this remains inconsistent and can be improved through the use of a business case template.</p> <p>Updated management response: In 2020-21 the Board will be establishing a Project Management Support Office that take forward Board processes and recommend a standard monitoring process and business case template for consistency in processes.</p> <p>Updated target date: 31/3/2021</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Value for Money: Performance management</i>	Management and the Board need to work together to identify resource needs and where resources can be reallocated from to address areas of declining performance. Alternatively, given the difficult financial position facing NHS Shetland, the Board may need to make difficult decisions and accept 'average' performance - amending targets and KPIs as appropriate - in some areas, whilst focusing resources on deemed priority areas until transformational change and service redesign are sufficiently progressed to enable NHS Shetland to adopt alternative models of care that maintain performance whilst also improving finances.	EMT will scrutinise performance and pressures and where necessary will recommend shifts in resources / KPIs for the Board to make decisions on.	Chief Executive	31/3/2020	Medium	<p><i>Partially implemented:</i> While EMT consider performance and challenges regularly, there has been limited evidence of consideration of the appropriateness of targets and KPIs.</p> <p>Updated management response: EMT meets at least 3 times a week, and performance variation and challenges are discussed as hot topics. Governance is in place to scrutinise waiting times on a weekly basis.</p> <p>Cascading to involvement of "silver" command and briefings will also take forward issues constructively across services to assist delivering sustainable improvements.</p> <p>Updated target date: 31/3/2021</p>
<i>Value for Money: Performance reporting</i>	Performance reports need to establish links between actions and outcomes. Performance reports also need to make clear how successful historical management actions to address performance issues have been.	<p>There will be an opportunity to reconsider the Board's approach to reporting on performance when the updated Performance Management Framework is considered by the Board (June 2019).</p> <p>NHS Shetland may follow the format currently used by the IJB which links actions and outcomes.</p>	Head of Planning & Modernisation	31/3/2020	Medium	<p><i>Partially implemented:</i> Although NHS Shetland has revised its Planning and Performance Schedule, performance reports still do not establish links between actions and outcomes, or set out the effectiveness of historical management actions.</p> <p>Updated management response: The NHS Board approved the Planning and Performance Schedule in 2020/21. EMT will reconsider their corporate objectives and develop key performance indicators to clearly demonstrate progress.</p> <p>Involvement of "silver" command and briefings will take this forward constructively across services to deliver sustainable improvements.</p> <p>Updated target date: 31/3/2021</p>

Action plan (continued)

Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Statements: Annual Report</i>	<p>NHS Shetland needs to improve the detail and quality of its Annual Report. This should include:</p> <ul style="list-style-type: none"> Ensuring all the requirements per the FReM are included in the performance report prior to review by audit; Sense checking all of the information disclosed in the performance report to ensure it is consistent with information disclosed elsewhere in the annual report and accounts; Revising the layout and structure of the information presented in the performance report to be more user friendly; Tailoring the level of information disclosed and the removal of any information which does not add value or aid the understanding of the user of the performance report; Providing information relevant to the current financial year and ensure all comparative information is disclosed where applicable; Inclusion of an action plan in the governance statement to outline how the Board will address the significant risks and uncertainties facing NHS Shetland; Removal of columns and rows that have nil balances presented for both current year and prior year. 	<p>If Audit Scotland do not update their good practice guide with developments implemented since 2016/17 audit cycle NHS Shetland will review other Boards annual accounts to review how other NHS Annual Reports and Financial Accounts have been changed to reflect practice and to keep the report concise.</p> <p>Recently appointed Communication Officer post will be consulted on the narrative section layout and format.</p> <p>Complete proof reading can be added however that will cause a delay in the date that External Audit receive the narrative section of the accounts.</p> <p>In respect of some of the Public Health data the time delay in publication of the statistics is such that data relates to the prior financial year. The relevance of the inclusion of this data will be reviewed by the Board.</p> <p>In respect of the Scottish Government official statistics on GP access against the two standards this is only measured every two years.</p>	Director of Finance	31/3/2020	Medium	<p><i>Partially implemented:</i> We have noted improvements in compliance with the FReM requirements in the Performance Report, and welcome improvements in the narrative sections of the Annual Report. Further improvements are required to ensure compliance with the FReM as shown by the disclosure deficiencies on pages 42 and 43 and to ensure that immaterial information is not unnecessarily disclosed, as set out on page 15.</p> <p>Updated management response:</p> <p>EMT meets at least 3 times a week, and performance variation and challenges are discussed as hot topics. Governance is in place to scrutinise waiting times on a weekly basis.</p> <p>Content of Boards report against best practice in other Board's report will be assessed during 2020-21. Widening participation in content for inclusion in non financial information section will also occur.</p> <p>Updated target date: 31/3/2021</p>

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in expenditure recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance. In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of NHS Shetland and our objectivity is not compromised.

Fees The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £74,670, as analysed below:

Auditor remuneration	£ 63,860
Audit Scotland fixed charges:	
Pooled costs	7,180
Audit support costs	3,630
Total fee	74,670

No non-audit services fees have been charged for the period.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.



Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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